STATE DOCUMENTS

MESSAGE

OF

GOVERNOR ROY E. AYERS

TO THE

Twenty-fifth Legislative Assembly

OF THE

STATE OF MONTANA

S
353.978
1937
G1m

January 4, 1937

MONTANA STATE LIBRARY
930 East Lyndale Avenue
Helena, Montana 59601

U196—6M—7-32
Montana State Library
3 0864 1004 9022 9
STATE UNIVERSITY OF MONTANA
MAY 1 1969
LIBRARY
UNIVERSITY of MONTANA

MAR 2 '42 10:

G. 3

s

embly

January 4, 1937

STATE PUBLISHING CO., HELENA, MONT.

U196—6M—7-32
3 0864
STATE UN
UNIVER

MESSAGE

OF

GOVERNOR ROY E. AYERS

TO THE

Twenty-fifth Legislative Assembly

OF THE

STATE OF MONTANA

91455

January 4, 1937

STATE PUBLISHING CO., HELENA, MONT.

GOVERNOR'S MESSAGE

Mr. President, Mr. Speaker, Members of the Senate and House of Representatives:

We are assembled here this evening as the first act in the performance of heavy duties which the electorate of the state has placed in our hands. I am sure that we all share equally a sense of the profound responsibility which is ours upon this occasion.

The constitution provides that the governor shall, at the beginning of each legislative session, report to you on the condition of the state. Upon this and such other information as you may possess or acquire during the course of your duties here, you, in turn, are expected to make such alterations or additions as, in your judgment, are required for the better government of the people and progress of the state. As we approach our respective tasks, it is fitting and proper that we pause to survey the ground already covered and attempt to chart the course which we expect to follow.

It is needless to recall the scenes of the depression through which we have been passing, nor the disasters left in the wake of succeeding and unprecedented drouths. The former closed our banks, shops, mills, mines, smelters, refineries, and destroyed our industrial and agricultural markets. It left great numbers of our workers without employment and caused almost every conceivable character of hardship and suffering. The latter brought ruin to a large percentage of our farmers and livestock men and adversely affected the fortunes of everyone. The effects of the depression are rapidly disappearing. Industry has recovered to within 7 per cent of the peak attained in 1929. Labor, with the help of the national government, is constantly improving its position; however, both industry and the worker need and must have every available aid that can be rendered them without adding to the burdens of other groups of our citizenship. For agriculture, every effort must be exerted for the rehabilitation of farm and ranch, since it is axiomatic that upon this fundamental industry depends the welfare of our country and our state.

I know you will not consider it a mere pleasantry when I say that I am sincerely happy to greet you and that I look forward confidently to working with you in a spriit of friendly, useful and genuine cooperation during the next 60 days. I entertain the highest hope that we shall faithfully and successfully discharge the trust reposed in us by the people of our state.

Our respective assignments are not easy ones and we must proceed with full appreciation of the seriousness of our duties. While primarily you are chosen to represent your respective counties, yet, in the broader sense, you are commissioned to a higher duty, that of representing the whole people of the state. With these thoughts uppermost in our minds, let us approach our responsibilities.

I desire most particularly to stress the importance, indeed, the necessity of taking such measure as may prove practical and effective for reductions in the operation of our state government to the end that the crushing burden of taxation, which rests upon the backs of the people of our state, may be lightened. The steadily increasing cost of government is becoming a matter of acute and justifiable concern in this country. It is becoming a barrier in the pathway of progress, and a positive menace to the happiness and prosperity of the populace. It bears with comparable force upon the rich and poor alike. It robs the farmer of his land, the toiler of his saving, and the business man of his just profit. It is the means whereby the hateful institution of bureaucracy expands and grows in power until it becomes a menace to the liberties of the people.

By way of illustration of this point, I direct your attention to the alarming increase in the number of people employed in the regularly established departments, boards and commissions of our state government during the past four years, and the cost of maintaining these additional positions. I recognize that extraordinary conditions have called for extraordinary expenditures; but disregarding these factors, there remain additions to personnel and payrolls, which in my judgment, are not required for the efficient operation of our governmental affairs. In this connection, permit me to remind you of the fact which has doubtless often occurred to all members of this assembly, that while it is easy to create new boards and commissions and add to the duties and expenses of those already established, it is a matter of the utmost difficulty to abolish or reduce the size and cost of one of these public bodies. For this reason, I would very respectfully request that constant vigilance be exercised against the creation of new functions or functionaries of the state government.

We must all recognize, I am sure, that only through candid and whole-hearted cooperation between the legislative and executive departments can any substantial saving be effected in our state government. I have promised, and here renew that promise, that, as governor and a member of several administrative boards, I shall strive constantly to stop leaks, do away with unnecessary or duplicating activities, increase efficiency and save every dollar possible that the taxpayers contribute for the support of our state government. I expect to have the assistance and support of all of the other officials in the executive department in the performance of these tasks; I am equally certain that all members of this assembly will be glad to join a sincere effort to accomplish this urgent public service.

I am not unmindful of the fact that on the list of members of the Senate and House are the names of a number of men who have served through a number of previous sessions, and, as a result of that experience, may possess a more comprehensive and detailed knowledge of the State's affairs than I. It is my hope that I may confer with them freely during the progress of the session and avail myself of the information and advice which they have to offer. I trust, also, that it will not be deemed presumptuous on my part, or regarded as any intent or desire to transgress upon the constitutional prerogatives of this body, when I offer the suggestion that in the conduct of your business, an effort be made to operate as economically as possible.

In the same spirit and without the slightest desire to impose my wishes upon the assembly, I would like also to suggest that your efforts be earnestly directed toward expediting the work which will come before you. By way of emphasizing the importance of this precaution, I have only to recall to your minds numerous instances in the past when congestion of business during the closing days of the sessions has created much confusion, engendered differences between the two houses and resulted in faulty and ill-considered legislation.

The subject of taxation is a most complex one and has engaged the study and thought of statesmen and economsits from time immemorial. In what manner and what amounts money for the maintenance of government shall be raised are questions which call for the exercise of the wisest judgment that any state can command. It has come to be the accepted theory in our own country that taxes should be imposed on the basis of ability to pay them.

Many remedies have, in the past, been proposed and adopted for the purpose of correcting inequalities in our tax system. Despite promises, talk and effort, we find still an ill-balanced tax structure

and it is my hope that you may promptly address yourselves to the task of making such readjustments as are required for the correction of obvious and long-standing weaknesses. I urge you to approach the subject with your minds free from bias or prejudice and intent only upon rearranging the tax load so that it may rest with comparable weight upon the shoulders of all of our people, the heavier portions of the burden upon the backs of those of greatest strength, the lighter, borne by those of lesser strength. The over-privileged must, in order to promote the welfare and happiness of all, surrender some of their privileges, and the under-privileged must be lifted up to the point where they can share more equally and adequately in the good things of life.

We still have on the statute books tax classification laws, which put the great industrial foundations of many of our public utility concerns in the column with the homes of our people. In the first instance, the property has an earning capacity and is earning every day in the year, while the property in the second instance is without earning capacity. The machinery employed to develop the power and energy of these great public utility concerns is classified in the same "value column" with farm machinery. The former has an all-year earning capacity and is earning every day in the year, while the latter has only a seasonal earning capacity of approximately 30 days of the year. Then we find solvent securities, if unsecured, assessed on a value of only 7 per cent, the lowest rating of any taxable property, yet, it has a definite earning capacity written on its face and it is only assessed and taxed when definitely solvent. This is not a just equalization with a non-earning home which is assessed on a value of 30 per cent. However unequal that instance appears and is, yet we find that the law entirely exempts from tax liability all solvent securities which are secured. Many other such inequalities exist in our classification law for taxation purposes.

It is the theory of classification law for taxation purposes, that property should be classified on the basis of earning capacity and that in legislating upon this subject the use to which property is put should be the basis of legislative consideration. Our own supreme court has laid down that rule; hence the great industrial dams holding back the waters of our streams for the generating of electric energy, should not be classified as farms or homes, and neither should the substations and transformers of these large industrial institutions be classified as farm machinery. Such classification destroys the intent and purpose of the taxation law which is and has been interpreted to mean that property should be taxed according to the use to which it is put and its actual earning capacity. These inequalities should be corrected and I trust will be corrected

by this legislative assembly. In making these corrections, I charge you with keeping uppermost in your minds the fact that use and earning capacity establish "ability to pay."

From such studies as I have made of the situation, I believe that there should be and can be a substantial reduction in the state's levy against real property. As I view it, owners of farm and ranch lands and urban homes are now carrying a disproportionate share of the burden. The high percentage of tax delinquency throughout the rural sections of our state and among the owners of the less pretentious homes in our cities and towns and villages, sustain this conclusion. I commend to the members of the assembly an earnest, painstaking study of this matter in the hope and belief that their united wisdom will result in some fair and constructive plan of tax equalization to correct the unfortunate conditions to which I have alluded. I further pledge my fullest cooperation in every effort that may be made in that direction.

In suggesting tax legislation, I wish it to be understood that any new levies made shall serve only as replacements for taxes already in effect. My thought is that reductions should be made in assessments against properties now overtaxed when their earning capacity is considered, and to increase taxes on other properties according to earning capacity.

Taxes on solvent credits, secured and unsecured, one now exempted and the other with only a 7 per cent taxable rating, should be raised according to earning capacity and levies against farm lands and homes should be reduced to the place now occupied by solvent credits. This should be a first step to the ultimate exemption of homes without earning capacity, but we must approach this subject with the idea of replacement taxes and not put the exemption into effect until replacement has been provided for.

Our present corporation license tax is fixed as 2 per cent, which places us in the lowest brackets of any of the states. An increase in this tax of 1 per cent would be equitable and fair, and figured on last year's returns, would swell our treasury by more than $160,000. It would materially replace the farm and home tax on which I have suggested an instant reduction and an ultimate exemption.

An increase in the hydro-electric tax on gross proceeds, patterned after, and equal to those in effect in neighboring states, which have worked out successfully, and a severance tax on natural gas piped out of the state, would help to balance the revenues lost by reducing the farm and home tax.

An increase in the income and inheritance taxes in the upper brackets, which are now much lower than the average of our sister states, and a 2 per cent tax on cigarettes and cigars, will entirely replace and eliminate the present state levy on real estate and the burden will be so distributed that it will not be onerous upon any individual or concern. At present we have no cigar tax and the tax on cigarettes is merely a dealers' nominal tax, returning but a little more than its cost of collection.

At present we have no chain bank tax and only a nominal chain store tax. While we realize that both of these organizations contribute to our progress, yet each should be required to help support the state government which makes possible orderly business operations for them in the state while their owners are largely non-residents.

Our present system of taxing timber is not based upon our general theory of taxation, due to a constitutional provision, and this class of property, when it becomes commercial and develops an earning capacity, escapes its just burden of taxation. This should be corrected by submitting a constitutional amendment to the end that we be permitted to write a timber severance tax.

While coal is required to pay a license tax, yet, owing to the nature of its various modes of production, this tax is exceedingly unequal, and is not based on the cost of production, nor the profits dervied from the various systems of coal mining. The strip coal mines, operating almost exclusively by machinery, which have practically eliminated the manpower in this class of coal production, should bear a greater burden than the mines which must, by the very nature of them, be operated by underground workers at a greatly increased cost and at much less profit to their producers.

All public utilities operating within the state, except that of the telephone, bear, at least, some license tax. The telephone is one of the surest profit earners, and I trust that this assembly shall not adjourn until it has placed a fair and just license tax upon the telephone utility.

With the proper and fair taxing of such state industries as have escaped taxation and with the general equalization of taxes which I have suggested, together with the estimated increase in the state's income from a general improvement in financial and industrial conditions, which is estimated by the state board of equalization at an annual minimum of $300,000, most of which will find its way into the general fund of the state, the entire levy on real estate for state purposes, exclusive of the University millage levy, can be eliminated at once.

In comparing the recommendations for general fund appropriations for the coming biennium with the appropriations as made by the last assembly, I find that requests for these funds have been increased from $4,146,104 to $4,747,440, or over $600,000 for the biennium. This increase has been recommended, or requested, notwithstanding, or perhaps because of the fact, that new sources of revenue have sprung up by legislative enactment, which are in excess of either legislative or administrative estimates. It is my opinion that the appropriations recommended by the budget authorities upon request of the heads of departments, commissions and boards, instead of being increased, can be substantially reduced without resorting to false economy which would, in any manner, hamper the functions of government necessary to the welfare of our people.

91455

The tendency, which has long been noted, toward the decentralization of our state government, through the creation of new boards, bureaus, and commissions, has resulted in many needless duplications of services, all of which call for unnecessary expenditure of public funds. Some of these activities duplicate or infringe upon services rendered by the federal government, and of which we have the full benefit. At an appropriate time I shall call to your attention instances of duplicating services and would respectfully urge that whenever, in the course of your own inquiries, you discover such cases, actions be taken to eliminate and coordinate them. I suggest, also, an inquiry into those agencies which should be self-sustaining and should not, for that reason ask for or receive appropriations from the general fund.

Likewise, great care and caution should be taken in making institutional appropriations. Every provision should be made for the education of our youth, the care of our orphans and infirm, and for such expenses as are necessary for the proper protection of our social order; but in doing so, I charge you to investigate and consider the "last day" uses to which the balances in these appropriations have been applied instead of being permitted to revert to the general fund, where they of right belong.

It has been a too general practice in the past for state institutions to go, sometimes to extraordinary lengths to exhaust their entire legislative appropriations, as well as other sources of income, regardless of necessity, by the close of the fiscal year. We may as well face the fact that this practice arises out of a desire to prevent any reduction in appropriations for the succeeding biennium. I cite just one or two instances, by way of illustration, of the methods used to exhaust appropriations. The records show one institution purchased 13 carloads, equalling some 400 tons of coal, at

the opening of the summer season, and another purchased 7,600 reams of typewriting paper at the close of the fiscal year, which closely coincided also with the close of that institution's active annual activities. I am unable to conclude other than that such purchases were made to exhaust the funds of those establishments to the end that they could show empty treasuries when they come before the assembly for new biennial appropriations.

In the present budget, which will be submitted to you, the Greater University units have asked an increase of a flat 25 per cent for each unit over the appropriations for the present biennium. The budget board has failed to make any defintie comment or recommendation upon this requested increase. If such an addition is made to the funds heretofore allotted, it is my judgment that it will increase the levy to the constitutional limit of three mills instead of the two and one-half mill levy made for the current biennium and which was sufficient to cover the appropriations made, take care of an overdraft in the millage fund and leave a balance of approximately $100,000 over and above the requirements for the present year. It is my judgment that these institutions can be operated and can maintain their present high standards of efficiency within the limit of the two and one-half mills levy.

Recent years of disastrous drouth which have caused enormous losses to our people and tragically retarded the normal progress of the state, have brought home to all of us the necessity of taking every possible measure to remove or reduce the hazards of the elements, and place an ever-increasing number of our citizens beyond the influence of these recurring misfortunes. Sufficient water annually flows out of our mountains and runs unused to the seas, if captured, restrained and distributed in proper season, to transform vast areas of Montana into the richest and most productive agricultural regions on earth.

I favor carrying forward a program of water conservation which will gradually bring to pass this desired change. So imperative is the need, so numerous the opportunities and so meager our financial resources capable of being diverted to this work that every dollar should be spent with the greatest care and made to produce the largest possible benefit. Within the limits of my authority as chief executive, I pledge my sincere endeavor to guard against wasteful or unwise expenditures in the administration of our water conservation commission, and my insistence upon the actual construction of projects now or hereafter found feasible.

In the lands reserved to our state for the benefits of its schools and for other purposes, is property of large present and potential value. We are under a most solemn and compelling obligation to

administer this great estate in such fashion that it will be adequately conserved and return to our citizens the maximum of benefits. I have in mind a later message suggesting certain changes in the statutes which set forth the rules and regulations which govern the leasing and selling of state lands of every character, description and location.

Material to the relief of the farmers and the smaller home owners, would be the reenactment of the law which allowed the redemption of tax delinquent property without the payment of penalty and interest. This also would help to build up local, county and municipal revenues, as well as state revenues, and I recommend that this law be reenacted for at least one additional year.

To deter discrimination in Montana, as compared to other states, I urge your serious consideration of legislation making gasoline a public utility.

The federal social security act is recognized as one of the most beneficial and humanitarian pieces of legislation in modern times, and I urge the passage of law in strict harmony with the federal statutes on this subject, so that we may avail ourselves of the greatest amount of federal assistance for our children, our aged, blind, infirm and unfortunate in one instance, and that we may be able to have the benefit of a maximum of federal assistance in the way of unemployment insurance in the other instance.

I recommend the enactment of a train limit bill.

The state's control and operation of the liquor traffic has brought substantial profits to the state. However, because of the very nature of the traffic and the large sums of money involved in all the transactions, it is imperatvie that the utmost vigilance be exercised to insure a businesslike administration of the statute establishing this addition to our state government. To insure the best possible results, the traffic should be entriely free from political control or influence.

In connection with this all-important subject, I assure you, with the greatest of sincerity, that it would be highly gratifying to me if such change could be made in the liquor control law as would relieve the governor of the detail duties which now devolve upon him as a member of the liquor control board.

I am sufficiently acquainted with the duties of the office to which I have succeeded, to know that the time of any governor can be fully and usefully occupied without being under the duty of locating and leasing liquor stores, employing liquor vendors and

other incidentals to this vast business, and discussing the merits or demerits of different brands of merchandise necessary in this traffic. I do not desire to evade any proper responsibility, nor neglect any duty, but I am unable to escape the conviction that such activities as those to which reference has been made, belittles the office of governor and detracts from the dignity which the people have a right to expect and demand of the person occupying that position. For these reasons I urge the assembly to make such changes in this law as will bring about the results which I have suggested.

It is not empty optimism that moves me to a strong hope for a sensible and purposeful progress in our state. The people of Montana are turning, as never before, to a permanent, fixed and substantial progress. Examples of their determination in this line are growing signs on every hand. They are sincere and earnest in their desires and ideas for a better and more economical state government which will also equalize the benefits and the burdens of our people. Their eyes are focused on us and their prayers are for us, for it is we in whom they have reposed confidence to bring them happiness and to establish progress in their government. Let us not deceive them, and may a Divine Providence guide us and keep us steadfast in discharging these obligations.